



THE BENEFITS OF TAX REFORM

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Federal tax reform is improving the lives of people across the commonwealth and providing a blueprint for how state lawmakers can improve our state tax climate and promote job creation.

I'd like to briefly cover a few trends we've seen in Pennsylvania since the passage of the Tax Cuts and Jobs Act. In addition, I am attaching our policy points titled The Benefits of Federal Tax Reform in Pennsylvania.

Almost everyone will pay lower taxes and have higher take-home pay.

The changes in the individual income tax—reducing tax rates, increasing the standard deduction, and eliminating several deductions—have reduced federal taxes for almost every family, including most Pennsylvania families. The left-leaning Tax Policy Center found that up to **76 percent of households nationally would receive tax cuts**, and only 7 percent would see higher taxes.

In Pennsylvania, the Independent Fiscal Office published an analysis of the impact of tax reform on various sample households, finding **Pennsylvania families would see a tax break in almost every scenario**—married or single, source of income, and at all income levels. The lone exception was single filers with wage income of more than \$300,000. Even taxpayers with no income tax liability would benefit—receiving back more from the federal government through “refundable tax credits.”

Both the Tax Foundation and the Heritage Foundation estimated the impact by state and by Congressional district. Both show **an average tax cut of more than \$1,000** for Pennsylvanians with modest incomes.

Employers are reinvesting in Pennsylvania and raising wages.

There are dozens of examples of Pennsylvania-based businesses—and dozens of national companies with Pennsylvania employees—that have used their tax relief to reinvest in workers or in their companies. From Philadelphia-based Comcast (bonuses and \$50 billion in new investment in the next 5 years) to Pittsburgh-based PNC Financial Services (higher wages, bonuses, and retirement benefits; plus \$200 million in charitable contributions), corporate tax reform has resulted in a windfall for Pennsylvania's workers and communities.

Much of the initial news focused on one-time bonuses, but a significant portion of the response has been additional capital investment, and most notably, raising the starting wages for workers. At a time when Gov. Wolf and some state lawmakers are calling for the state government to mandate a higher minimum wage, **tax reform has already achieved higher wages for workers.**

Consumers are paying less for utility costs.

According to the [Pennsylvania Public Utility Commission](#), the tax reform package will save consumers approximately **\$400 million annually** via lower utility bills.

This includes savings on electric bills, natural gas bills, and water bills—benefiting both homeowners and businesses. For example, Pennsylvania American Water estimates the reduction will be \$100 for residential customers and \$500 for commercial customers.

Economic growth improves the state's finances.

The IFO estimates that **\$6 to \$7 billion** will be injected into Pennsylvania's economy as a result of federal tax reform.

Tax reform is also improving Pennsylvania's employment picture. The [Tax Foundation estimates](#) the federal reform will create nearly 8,700 new jobs in the commonwealth during 2018.

Even Governor Wolf—who lobbied against tax reform—is celebrating the impact in Pennsylvania. “Unemployment in Pennsylvania has dropped to the lowest rate since 2007. With the number of jobs in Pennsylvania at a record high, opportunities for workers and businesses are growing every day” - [Governor Tom Wolf on Twitter](#), August 20, 2018.

That doesn't change longer trends in which Pennsylvania has lagged the rest of the nation in job growth, or that Pennsylvania has a higher unemployment rate than the national average. But the economic benefits of federal tax reform have profoundly benefited Pennsylvania's economy.

A product of this accelerated economic growth and more jobs: increased state tax revenue. The IFO predicts federal tax reform could **increase state tax revenues by \$260 million**.

That's a major reason why we are sitting here having this hearing on tax reform, rather than a hearing on how to resolve another state budget impasse.

Pennsylvania should follow suit with state tax reform.

The success of federal tax reform should offer a lesson to state lawmakers: We can do the same.

First, we need to reduce our overall tax burden to let working families keep more of their income.

Second, we need to address our business tax structure to make Pennsylvania more competitive. Our 9.99 percent corporate income tax rate drives businesses to other states and overseas. We can achieve this reduction by reducing [corporate welfare incentives](#). Today, our tax rate is so uncompetitive, we have to bribe companies to invest in Pennsylvania.

Finally, we need to control state spending growth to facilitate tax reform and avoid budget deficits. One of the best ways to restrain spending is to adopt the Taxpayer Protection Act (TPA), which limits spending growth to the average rate of inflation and population growth. Had the TPA been in place since FY 2003, taxpayers would have saved a cumulative \$10,000 per family of four.